CARFINCO INC.

ANNUAL REPORT
1997

CARFINCO™

CANADIAN AUTOMOTIVE REPAIR FINANCE CORPORATION

AUTOMOTIVE REPAIR FINANCING

Corporate Profile

CARFINCO Inc. is in the business of providing specialty consumer financing for automotive repairs. CARFINCO markets the program through a network of selected independent and franchise repair facilities. These selected Authorized Repairers offer the finance plan directly to their customers. Customers are required to meet certain collateral value and credit standards. Both of these standards are evaluated by CARFINCO at the time the customer brings the automobile in to be repaired and submits the credit application.

CARFINCO's finance program covers all facets of the Automotive Repair Industry including autobody collision & painting, mechanical repairs, propane & natural gas conversions, transmissions, brakes, mufflers and wheel repairs.

CARFINCO commenced active operations in Alberta on March 13, 1997 with the objective of establishing a network of Authorized Repairers through which the Company's repair finance plan would be offered. The Company is now, at year end, in the final stages of developing that network in Alberta, and will move into the next phase of development, which is to emphasize finance contract volume.

A series of information and training sessions called PROFITMAKER SEMINARS have been developed by the Company. These sessions provide the opportunity to instruct the Authorized Repairer in the proper use of consumer financing to increase their sales and profits. It is anticipated that these PROFITMAKER SEMINARS will contribute substantially to increased use of the Company's finance plan as a convenient financing alternative.

CARFINCO Inc. was formed on December 30, 1996 for the purpose of purchasing the issued and outstanding shares of Canadian Automotive Repair Finance Corporation. CARFINCO Inc. is a publicly-traded Company with 5,100,000 shares outstanding. The Company's shares are listed for trading on the Canadian Dealing Network (a subsidiary of the Toronto Stock Exchange) under the symbol "CAAR".

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President's Message


R. Lee Emerson, President and Chief Executive Officer

In this, our inaugural Annual Report, I wish to first acknowledge and thank a small group of individuals with "stout hearts and strong minds" who believed enough in the concept to supply the funds necessary to take the Company from a concept to a reality.

I also want to extend my deep appreciation to our Executive Team and Regional Managers who are primarily responsible for the initial positive response and market penetration with a concept which has never been offered to the Automotive Repair Industry.

During the past year, management has focused primarily on the establishment of a network of Authorized Repairers in Alberta. These Authorized Repairers are the key factor in CARFINCO's continued growth, therefore, we have worked hard to establish a comfortable and mutually beneficial partnership with them.

Enabling the customer to submit the credit application, receive the required automotive repairs, and complete the loan documentation at the same repair facility has proven to be an efficient and convenient method of providing financing. The simplicity of this process is a key factor for CARFINCO's success in the competitive consumer financing market.

Management has spent time reviewing and selecting appropriate internal control systems specifically designed for use in the financial services industry. These systems, while still growing and expanding, have already displayed their efficiency and effectiveness in controlling the loan portfolio and in producing accurate and timely financial reporting.

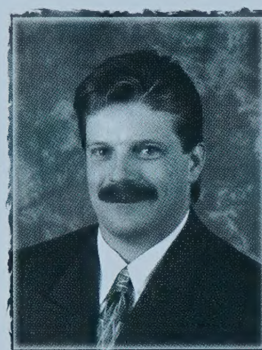
We are committed to providing our customers and Authorized Repairers with quality personalized service. By assisting our valued customers to meet their financial commitments in an affordable manner and by assisting our Authorized Repairers to increase their sales and profits we aim to build a Company which will provide profitable growth and solid returns for our Shareholders.

On behalf of the Board of Directors and Management, I would like to thank our Shareholders for their continued support and confidence. We again commit ourselves to developing a unique and profitable company.

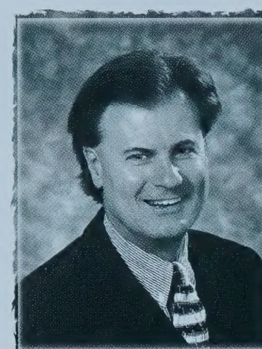
R. Lee Emerson
President and Chief Executive Officer

The Corporate Team

Edward C. McClelland
Chief Financial Officer

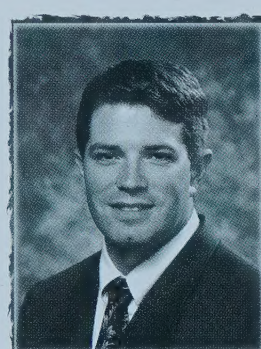


Tracy A. Graf
Vice President, Operations



Rick Hewson
Vice President, Marketing

Troy S.F. Graf
Controller



Brian Radmacher
Regional Manager

Jim Zakowsky
Regional Manager

Testimonials

"As we do not have the ability to underwrite repairs ourselves your program gives us an avenue to attract business we did not have before."

Gordon Cook, Sales Manager, National Transmission

"We have been extremely pleased with the service your staff gives us starting with the quick responses to our applications all the way to being paid out a week later."

Paul Lanteigne and Hany Rabeeh, Owner/Managers, Electronic Engine Control

"It has really improved our cash flow situation and our managers find it much easier to recommend the proper service when they know the customer's credit situation will be handled so well."

Bob Ruthven, Owner/Manager, AAMCO Transmissions

"You have enabled my shop to lower its receivables and allow my customers the opportunity to have monthly payments, which puts less of a burden on them financially."

Brad Milligan, Owner/Operator, MAACO Auto Bodies Repairing

"All of CARFINCO's rep's conduct themselves professionally at all times and have been a great help in training our staff.."

Bill Sheridan, Owner, Western Collision Repairs

Management's Discussion and Analysis

General

During the year, the Company focused primarily on establishing a network of Authorized Repairers in Alberta. By year end, the network included 314 Authorized Repairers which represents 10.5% of the approximate 3,000 eligible repair facilities in the Alberta market. Management feels that this is a significant indication of acceptance for this program within the Automotive Repair Industry.

These financial statements represent the eight months of cumulative activity from the date of incorporation, December 30, 1996 to August 31, 1997. During the first three months to March 31, 1997, the Company did not engage in commercial activities.

The following discussion should be read in conjunction with the Company's consolidated financial statements commencing on page 5.

Results of Operation

During the period December 30, 1996 to August 31, 1997, the Company recorded "Net Interest and Other Income"of $25,654 and "Non-Interest Expenses" of $261,115. The finance receivables portfolio was $371,390 at August 31, 1997. "Non-Interest Expenses" of $261,115 includes $84,371 in start-up costs incurred prior to March 31,1997, $21,481 in direct costs for establishing a network of 314 Authorized Repairers, and $58,800 in support services fees paid to RTO Enterprises Inc.

Liquidity and Capital Resources

The Company's business requires substantial cash resources to support the continued financing of automotive repairs. The Company's ability to grow depends upon its continued ability to obtain substantial long-term debt and equity capital through access to the financial markets or otherwise. Factors which could affect the Company's access to the financial markets, or the costs of such financing, include changes in interest rates, general economic conditions, the perception in the financial markets of the Company's business, results of operations, leverage, and business prospects.

It is expected that direct competition will eventually emerge, however, CARFINCO's program strictly focuses on the Automotive Repair Industry and can therefore provide a greater degree of knowledgeable service to the individual consumer. The Company's ability to evaluate the needs of each customer's automotive repair situation will remain a competitive advantage over other forms of consumer financing. In addition, the Company's motto which is founded on simplicity and the provision of superior customer services, both personally and professionally, will help to establish CARFINCO as a leader in the specialty consumer financing market.

Delinquency rates have been lower than Management's initial expectations with no write-offs of finance receivables recorded to date. Management feels that the current provision for credit losses is conservative in nature due to strong internal control procedures, collateral security placed on each vehicle, and the recognition by the customer of the importance of retaining the vehicle. Management is continuing to develop and expand on existing control procedures which are specific to managing and controlling the delinquency volume as the finance receivable portfolio increases.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this annual report have been prepared by, and are the responsibility of, the Management of CARFINCO Inc. These financial statements have been prepared in accordance with generally accepted accounting principles, using Management's best estimates and judgements when appropriate.

The Board of Directors is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of three Directors, meets with Management as well as the external auditors to satisfy itself that Management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the report of the auditors. The auditors have full and unrestricted access to the Audit Committee.

The financial statements have been audited by Doane Raymond, the independent auditors, in accordance with generally accepted auditing standards.

R. Lee Emerson
President and Chief Executive Officer

Edward C. McClelland
Chief Financial Officer

Auditors' Report

To the Shareholders of
CARFINCO Inc.

We have audited the consolidated balance sheet of CARFINCO Inc. as at August 31, 1997 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 1997 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Doane Raymond
Chartered Accountants

Edmonton, Canada
September 25, 1997

Consolidated Statements of Loss and Deficit

Period from Date of Incorporation, December 30, 1996 to August 31, 1997

Interest income	$ 19,814
Interest expense	5,069
	14,745
Provision for credit losses	11,600
Net interest income after provision for credit losses	3,145
Other income	
Administration fees	15,477
Investment income	7,032
	22,509
Net interest and other income	25,654
Non-interest expenses	
Advertising and promotion	21,243
Depreciation	2,707
Management fees and salaries	74,220
General and administrative	162,945
	261,115
Net loss and deficit	$ (235,461)
Loss per share - basic	$ (0.06)

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheet
August 31, 1997

Assets

Current		
Finance receivables (net of allowance for credit losses) (Note 4)	$	371,390
Restricted cash (Note 7)		800,000
Other assets		2,606
		1,173,996
Capital assets (Note 6)		16,594
	$	1,190,590

Liabilities

Current		
Bank indebtedness (Note 7)	$	631,971
Payables and accruals		54,791
		686,762

Shareholders' Equity

Share capital (Note 8)		739,289
Deficit		(235,461)
		503,828
	$	1,190,590

On behalf of the Board:

R. Lee Emerson
Director

Gordon J. Reykdal
Director

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Period from Date of Incorporation, December 30, 1996 to August 31, 1997

Cash derived from (applied to)

Operating Activities

Net loss	$	(235,461)
Accrued interest		(7,361)
Administration fees not collected		(13,829)
Depreciation		2,707
Provision for credit losses		11,600
		(242,344)
Change in non-cash operating working capital (Note 11)		52,185
		(190,159)

Investing Activities

Funds advanced on finance receivables		(396,692)
Principal collections on finance receivables		34,892
Purchase of capital assets		(19,301)
		(381,101)

Financing Activities

Issuance of share capital		876,000
Share issue costs		(136,711)
		739,289
Net increase in cash during the period		168,029
Cash, Beginning of period		-
Cash, End of period	$	168,029

Cash represented by

Restricted cash	$	800,000
Bank indebtedness		(631,971)
	$	168,029

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
August 31, 1997

1. Operations

CARFINCO Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on December 30, 1996. The Company owns 100% of Canadian Automotive Repair Finance Corporation, which is a company incorporated under the Business Corporations Act (Alberta). On May 7, 1997, the Company completed an Initial Public Offering and its shares were listed on the Canadian Dealing Network (symbol "CAAR").

The Company is in the business of providing consumer financing for automotive repairs.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Basis of consolidation
These financial statements include the accounts of the Company and its wholly owned subsidiary, Canadian Automotive Repair Finance Corporation.

Finance receivables
Finance receivables are recorded at their principal amounts, including accrued interest, less allowance for credit losses.

Interest income is recorded on the accrual basis. Recognition of interest income is suspended when, in management's view, a loss is likely to occur. Fees related to the origination of loans are recognized when the finance receivable is recorded. Charges related to the subsequent administration of the finance receivables are recognized upon collection of funds.

Allowance for credit losses
The management of the Company establishes and maintains an allowance for credit losses which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The allowance for credit losses consists of specific and general components which are deducted from the finance receivable portfolio. The specific component includes those accounts which, in management's view, are not considered recoverable. The general component includes a provision for credit losses which is conservative in nature and includes an estimation of losses by reference to historical industry ratios of write-offs and to current recovery experience.

Capital assets
Capital assets are recorded at cost net of accumulated depreciation. Depreciation is provided on the declining balance method at rates calculated to depreciate the cost of the assets over their estimated useful lives as follows:

Computer and office equipment	30%, declining balance
Furniture and fixtures	20%, declining balance

Notes to the Consolidated Financial Statements
August 31, 1997

3. Business acquisition

The Company was incorporated on December 30, 1996 to assist Canadian Automotive Repair Finance Corporation in acquiring equity funding.

Effective December 31, 1996, the Company acquired all the issued and outstanding shares of Canadian Automotive Repair Finance Corporation in exchange for 1,500,000 common shares of the Company, with a stated amount of $70,500, which represented 50% of the Company's voting shares immediately after the acquisition. An acquirer can be identified based on the composition of the board of directors of the Company after the business acquisition. The board is comprised of three directors representing the interests of the founding shareholders of the Company and two representing the interests of the original shareholders of Canadian Automotive Repair Finance Corporation.

The acquisition has been accounted for using the purchase method and the value assigned to the net assets of Canadian Automotive Repair Finance Corporation is as follows:

Cash		64,871
Prepaid expenses	$ 1,936	
Less portion of excess of value of assets over acquisition cost	(1,936)	
Capital assets	11,439	
Less portion of excess of value of assets over acquisition cost	(1,910)	
		9,529
Liabilities		(3,900)
		$ 70,500
Consideration: issue of common shares		$ 70,500

4. Finance receivables

Principal of finance receivables	$ 375,629
Accrued interest	7,361
Finance receivables	382,990
Less: allowance for credit losses (Note 5)	(11,600)
Net finance receivables	$ 371,390

5. Allowance for credit losses

Allowance, beginning of year	$ -
Provision for credit losses	11,600
Write-offs	-
Recoveries	-
Allowance, end of year	$ 11,600

Notes to the Consolidated Financial Statements
August 31, 1997

6. Capital assets

	Cost	Accumulated Depreciation	1997 Net Book Value
Computer and office equipment	$ 11,897	$ 1,693	$ 10,204
Furniture and fixtures	7,404	1,014	6,390
	$ 19,301	$ 2,707	$ 16,594

Depreciation provided for in the current period totalled $2,707.

7. Bank indebtedness

The bank indebtedness is a demand credit facility which is the lesser at any time of a) $2,000,000 and b) the total of 100% of acceptable hypothecated bank balances (minimum $800,000), plus 50% of the value of acceptable outstanding finance contracts.

The collateral security lodged by the Company to support the loan is as follows:

a) $800,000 of cash is restricted and held in an investment account as collateral for the bank line of credit.
b) a general security agreement covering all property held by the Company.

8. Share capital

Authorized:
Unlimited number of Class A common shares

Issued:	# of shares	1997
Issued for cash to founding shareholders	1,500,000	$ 70,500
Issued in exchange for all issued and outstanding shares of Canadian Automotive Repair Finance Corporation	1,500,000	70,500
Issued for cash in Initial Public Offering	2,100,000	735,000
	5,100,000	876,000
Share issue cost	-	(136,711)
Balance, end of year	5,100,000	$ 739,289

Stock options
The Company has entered into stock options with directors, officers and employees. As at August 31, 1997, the Company has granted 400,000 options at an exercise price of $0.35 per share which expire on April 7, 2002.

Notes to the Consolidated Financial Statements
August 31, 1997

8. Share capital (continued)

The Company entered into a Promoter's Option Agreement pursuant to which it has reserved 125,000 common shares for issuance at an exercise price of $0.35 per share in connection with a promoter's option granted to the President of the Company, expiring on April 7, 2002.

Pursuant to an Agency Agreement dated April 16, 1997, the Company has granted GTL Securities Inc. options to acquire 210,000 common shares at an exercise price of $0.35 per common share. The option expires 24 months after the closing date of the Initial Public Offering.

Warrants
In connection with the Initial Public Offering, the Company issued 2,100,000 common share purchase warrants exercisable on or before 5:00 p.m. (E.S.T.) on October 31, 1997 at a price of $0.50 per common share.

Escrowed shares
Pursuant to a voluntary Escrow Agreement dated April 16, 1997, an aggregate of 709,886 common shares of the Company have been escrowed for three years. Under the terms of the April 16, 1997 Escrow Agreement, 10% of the escrowed shares shall be released on January 17, 1998 and 30% of the escrowed shares shall be released on each of the first, second and third anniversaries of the initial release. As at August 31, 1997, 709,886 common shares remain in escrow under the voluntary Escrow Agreement of April 16, 1997.

9. Related party transactions

The Company has entered into an Alliance and Service Agreement dated April 7, 1997 with RTO Enterprises Inc., whereby RTO will supply support services for an initial period of six months, ending October 31, 1997, at $7,350 per month, which represents fair value for services provided, renewable semi-annually. The agreement has been renewed for an additional period of six months commencing November 1, 1997 and ending April 30, 1998, at $2,675 per month, which represents fair value for services provided. During the year, $58,800 was paid to RTO. At August 31, 1997, payables and accruals include $7,350, representing accrued fees payable to RTO. A director of RTO Enterprises Inc. is a shareholder and a director of CARFINCO Inc.

The Company has entered into a Consulting Agreement dated April 7, 1997 with Patica Corporation, whereby Patica will provide on-going financial consulting advice for a three year period, commencing May 1, 1997, for an initial fee of $1,000 per month increasing to $5,000 per month when the Company completes additional equity financing of at least $1,000,000. The fee represents fair value for services provided. During the year, no payments were made to Patica and at August 31, 1997, there was no amount payable to Patica. Patica Corporation is controlled by individuals who are directors and/or shareholders of CARFINCO Inc.

Notes to the Consolidated Financial Statements
August 31, 1997

10. Income taxes

To August 31, 1997, the company incurred tax losses of $288,564 which may be applied against future taxable income within the limitations prescribed by the Income Tax Act.

If not utilized these losses will expire as follows:

2002	$	8,381
2003		6,535
2004		273,648
	$	288,564

The possible tax benefit of these losses has not been reflected in the financial statements.

11. Change in non-cash operating working capital

Other assets	$	(2,606)
Payables and accruals		54,791
	$	52,185

12. Subsequent events

On October 31, 1997, a special meeting of the warrant-holders was held. A special resolution authorizing and approving the extension of the time of expiry for the exercise of the outstanding common share purchase warrants of the Company to 5:00 p.m. (E.S.T.) on January 30, 1998 was voted on and passed.

13. Comparative figures

Comparative figures are not available, as the financial statements present the first fiscal period of the Company, being the period from date of incorporation, December 30, 1996 to August 31, 1997.

CARFINCO™
CARFINCO INC.

Corporate Information

Directors

R. Lee Emerson
President and Chief Executive Officer
CARFINCO Inc.
Edmonton, Alberta

Edward C. McClelland
Vice President and Chief Financial Officer
CARFINCO Inc.
Burlington, Ontario

Tracy A. Graf
Vice President
CARFINCO Inc.
Edmonton, Alberta

Gordon J. Reykdal
President and Chief Executive Officer
RTO Enterprises Inc.
Edmonton, Alberta

David Prussky
President
Patica Corporation
Toronto, Ontario

Officers

R. Lee Emerson
President and Chief Executive Officer
CARFINCO Inc.
Edmonton, Alberta

Edward C. McClelland
Vice President and Chief Financial Officer
CARFINCO Inc.
Burlington, Ontario

Paul M. Stein
Partner
Cassels Brock & Blackwell
Toronto, Ontario

Bankers

Canadian Imperial Bank of Commerce
Commerce Place, Suite 1900
10155 - 102nd Street
Edmonton, Alberta T5J 4G8

Auditors

Doane Raymond, Chartered Accountants
Scotia Place I, Suite 2400
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Solicitors

Cassels Brock & Blackwell
Scotia Plaza, Suite 2100
40 King Street West
Toronto, Ontario M5H 3C2

Stock Exchange Listing

The Canadian Dealing Network
Trading Symbol: CAAR

Transfer Agents

Equity Transfer Services Inc.
Richmond Adelaide Centre
Suite 420, 120 Adelaide Street West
Toronto, Ontario M5H 4C3

Head Office

Westgate Business Centre
10271 - 178 Street
Edmonton, Alberta T5S 1M3

Annual General Meeting

The Annual General Meeting of Shareholders will be held February 18, 1998, at the offices of Cassels Brock & Blackwell located at Suite 2100, Scotia Plaza, 40 King Street West, Toronto, Ontario, at 10:00 am.

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CARFINCO™
CANADIAN AUTOMOTIVE REPAIR FINANCE CORPORATION

CARFINCO INC.

Westgate Business Centre
10271 - 178 Street
Edmonton, Alberta Canada T5S 1M3

Phone 403.413.7549 • Fax 403.486.7456
Toll Free 1.888.486.4356